Farm Fresh (FFB MK)

4QFY26: Temporary Blip But Valuations More Reasonable

HOLD (Upgraded)

Share Price	RM2.14
Target Price	RM2.05
Upside	-4.3%
Previous TP	RM2.00

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Highlights

- Earnings are broadly within our estimate but below consensus. Top-line saw a sequential dip following a sharp decline in Australia contributions.
- Margins also eased due to a less favourable product mix, losses from its Philippines operations and higher financing cost.
- Upgrade to HOLD with a revised target price of RM2.05 as valuations have moderated to more palatable levels aligned with its prospects.

4QFY26 Results

Year to 31 Mar (RMm)	4QFY26	qoq % chg	yoy % chg	FY26	yoy % chg	Comments
Revenue	275.1	-3.5	12.9	1115.7	13.7	Sequential decline dragged by sharp Australian contributions as Malaysia revenue remains flattish.
Gross profit	86.8	-7.5	12.1	366.1	16.1	
EBITDA	51.2	-12.7	4.6	227.6	19.6	
Pretax profit	27.8	-25.7	-5.6	143.0	24.1	
Core PATAMI	27.9	-13.7	-1.6	129.6	21.8	Within our but below consensus expectations.
	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg	
Gross margin (%)	31.5	-1.4	-0.2	32.8	0.7	Margins weighed by Philippines losses amid less favourable product mix.
EBITDA margin (%)	18.6	-2.0	-1.5	0.0	-19.4	
Effective tax rate (%)	-11.2	-2.6	-5.2	-9.1	-2.3	
Core margin (%)	10.1	-1.2	-1.5	11.6	0.8	

Source: Farm Fresh, UOB Kay Hian

Analysis

- **Below consensus expectations.** Farm Fresh reported a 4QFY26 core net profit of RM27.9m (-13.7% qoq, -1.6% yoy). This brought FY26 core profit to RM129.6m (+21.8% yoy). Earnings are within our forecasts but below consensus expectations, accounting for 97% and 91% of our and consensus full-year earnings estimates respectively. Revenue dipped sequentially following lower Australia contributions amid flattish domestic sales. Meanwhile, margins eased due to a less favourable product mix.

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	981.2	1,115.7	1,272.6	1,285.3	1,298.2
EBITDA	186.7	218.0	238.8	254.3	260.0
Operating profit	125.5	151.4	160.1	164.0	167.7
Net profit (rep./act.)	106.4	129.6	145.2	149.0	152.5
Net profit (adj.)	106.4	129.6	145.2	149.0	152.5
EPS	5.7	7.0	7.8	8.0	8.2
PE (x)	37.4	30.7	27.4	26.7	26.1
P/B (x)	5.5	4.8	4.4	4.0	3.6
EV/EBITDA (x)	20.2	17.8	14.9	14.6	14.4
Dividend yield (%)	1.0	1.3	1.4	1.5	1.5
Net margin (%)	10.8	11.6	11.4	11.6	11.7
Net debt/(cash) to equity(%)	13.3	23.9	24.3	30.1	43.2
Interest cover (x)	11.2	12.3	11.0	11.6	11.9
ROE (%)	15.6	15.7	15.8	14.8	13.8
Consensus net profit	n.a	n.a	138.4	164.1	182.8
UOBKH/Consensus (x)	n.a	n.a	1.0	0.9	0.8

Source: Farm Fresh, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	FFB MK
Shares issued (m):	1,884.4
Market cap (RM$m):	4,541.4
Market cap (US$m):	1,146.1
3-mth avg daily t'over (US$m):	4.8

Price Performance (%)

52-week high/low				RM3.0/RM1.7
1mth	3mth	6mth	1yr	YTD
6.2	(13.6)	(0.8)	28.9	(15.1)

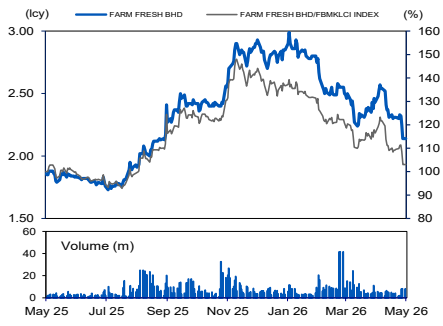
Major Shareholders %

Loi Tuan Ee and family	44.5

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.4
FY26 Net Debt/Share (RM)	0.2

Price Chart



Source: Bloomberg

Company Description

Homegrown Farm Fresh is the largest integrated dairy producer in Malaysia. Farm Fresh commands more than half of the RTD fresh milk segment. It also looks to expand its exports to the likes of Singapore, Indonesia and the Philippines.

- **Confluence of factors weighs on sales.** Sequentially, 3QFY26 sales softened by 3.5% qoq primarily due to lower Australian revenue and the disposal of Henry Jones Taylor sauces business in the preceding quarter. Sales in Malaysia was flat sequentially due to the fasting month and lower pasteurised sales due to its plastic resin shortage, which was partly offset by increased school milk deliveries.
- **Softened margins.** 4QFY26 group gross margin eased by 1.4ppt qoq to 31.2% as a result of gross loss arising from its Philippines operation and a less favourable product mix arising from softer demand for its ice cream products. Higher financing costs and a less favourable tax rate weighed on earnings, though this was partly mitigated by losses attributable to non-controlling interests (NCI). Consequently, net margin softened by 1.2ppt qoq to 10.1%.

Valuation/Recommendation

- **Upgrade to HOLD with a revised target price of RM2.05 (from RM2.00)** as we roll over our PE-based target price of 26x to 2027 from FY27. F&N's influx of supply over the next 1-2 years will disproportionately impact Farm Fresh, given the latter's dominant market share in Malaysia. Valuations have since moderated, largely fairly reflecting its near-term prospects. As such, we upgrade to HOLD.

Earnings Revision/Risk

- No changes to earnings. Downside risks include elevated raw material prices, enhanced competition, milk quality and yield, and USD foreign exchange rate.

Share Price Catalyst

- **Packaging bottleneck.** The Middle East conflict has somewhat disrupted Farm Fresh's operations via packaging availability. The company highlighted disruptions in PET resin supply - a petroleum-based material used for its core 1-litre and 2-litre "red cap" milk bottles - alongside rising diesel, logistics and electricity expenses. This was further compounded by two weeks of inventory on hand. However, management indicated the directly impacted cost component only accounts for roughly 4% of total COGS, thereby limiting the overall impact even if resin prices remain elevated. Management will pass on the cost with a 3% ASP hike on plastic packaged products in June.
- **Temporary and digestible impact.** The impact, however, appears temporary. "Red cap" products contribute 12-13% of revenue, with management actively encouraging customers to shift towards paper carton and UHT packaging formats to mitigate resin-related disruptions. While prolonged tensions could pressure margins and supply chains, the financial impact appears digestible amid resilient demand.
- **Enhanced competition at Farm Fresh's doorstep.** F&N has made significant investments and headway into upstream dairy production. Over the next 5-8 years, F&N is expected to ramp up milk production to 200m litres of fresh milk p.a.. F&N's maiden commercial dairy production has come on-stream in 1Q26. Even the completion of its Phase 1 (100m litres of fresh milk output) would already position F&N as the largest dairy producer in the nation. Farm Fresh's dominant market share of 60% in the chilled dairy segment is likely to be most at risk. In addition, adjacent category dairy products such as ice cream and butter, which Farm Fresh currently produces, could be well within F&N's wheelhouse eventually.

Key assumptions

	2027F	2028F	2029F
Revenue (RMm)	1272.6	1285.3	1298.2
Growth yoy (%)	14.1	1.0	1.0
PATAMI (RMm)	145.2	149.0	152.5
Growth yoy (%)	12.1	2.6	2.4
3-yr CAGR (%)	36.6	11.9	5.6
Gross margin (%)	35.4	35.4	35.1
EBITDA margin (%)	20.5	21.5	21.7
ASP growth yoy (%)	1.0	1.0	1.0
Volume growth yoy (%)	13.0	0.0	0.0

Source: UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental

- Farm Fresh recycled 550.9m litres of farm dairy effluent, removed 2.09m kg of chemical fertiliser usage and saved 705.1m litres of municipal water. Recyclable packaging contributed 36.8% of turnover, alongside wider solar PV adoption.

Social

- Farm Fresh generated RM47m income for its home dealer network and RM4.6m for partner farmers. Over 49.8m school milk packs were distributed nationwide, while zero workplace fatalities or serious injuries were recorded in FY25.

Governance

- Governance remained robust with a majority-independent Board (4/7) and 43% female representation. Farm Fresh also strengthened governance policies, including ABAC, Diversity and External Auditors' Assessment frameworks during FY25.

Source: Farm Fresh

Profit & Loss

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Net turnover	1,116	1,273	1,285	1,298
EBITDA	218	239	254	260
Deprec. & amort.	67	79	90	92
EBIT	151	160	164	168
Total other non-operating income	10	22	22	22
Associate contributions	(1)	(1)	(1)	(1)
Net interest income/(expense)	(17)	(23)	(23)	(23)
Pre-tax profit	143	158	163	166
Tax	(13)	(14)	(15)	(15)
Minorities	0	1	1	1
Net profit	130	145	149	152
Net profit (adj.)	130	145	149	152

Balance Sheet

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Fixed assets	617	678	779	906
Other LT assets	313	313	313	598
Cash/ST investment	172	198	186	160
Other current assets	767	728	742	748
Total assets	1,868	1,917	2,020	2,412
ST debt	287	287	287	287
Other current liabilities	186	164	165	168
LT debt	427	427	427	427
Other LT liabilities	141	122	131	427
Shareholders' equity	827	917	1,009	1,103
Total liabilities & equity	1,868	1,917	2,020	2,412

Cash Flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	124	262	249	263
Pre-tax profit	143	158	163	166
Tax	(2)	(14)	(15)	(15)
Deprec. & amort.	67	79	90	92
Associates	1	1	1	1
Working capital changes	(101)	16	(12)	(4)
Other operating cashflows	18	23	23	23
Investing	(289)	(155)	(179)	(206)
Capex (growth)	(212)	(156)	(180)	(207)
Proceeds from sale of assets	50	0	0	0
Others	(127)	1	1	1
Financing	282	(81)	(82)	(83)
Dividend payments	(19)	(57)	(58)	(60)
Issue of shares	0	0	0	0
Proceeds from borrowings	325	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(24)	(24)	(24)	(24)
Net cash inflow (outflow)	117	26	(12)	(27)
Beginning cash & cash equivalent	59	172	198	186
Changes due to forex impact	(4)	0	0	0
Ending cash & cash equivalent	172	198	186	160

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	20.4	20.5	21.5	21.7
Pre-tax margin	12.8	12.5	12.6	12.8
Net margin	11.6	11.4	11.6	11.7
ROA	6.9	6.9	6.9	6.9
ROE	15.7	15.8	14.8	13.8
Growth				
Turnover	13.7	14.1	1.0	1.0
EBITDA	17.9	14.5	6.0	2.1
Pre-tax profit	24.0	10.9	2.6	2.4
Net profit	21.8	12.1	2.6	2.4
Net profit (adj.)	21.8	12.1	2.6	2.4
EPS	21.8	12.1	2.6	2.4
Leverage				
Debt to total capital	19.8	19.8	19.8	19.8
Debt to equity	44.7	45.0	48.6	57.7
Net debt/(cash) to equity	23.9	24.3	30.1	43.2
Interest cover	12.3	11.0	11.6	11.9

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